

## **TEACHERS' RETIREMENT BOARD MEETING**

### **May 20, 2005**

#### **CALL TO ORDER:**

Chairman Tim Ryan called the meeting to order at 8:30 a.m., in the Teachers' Retirement Conference Room, 1500 Sixth Avenue East, Helena, Montana.

#### **BOARD MEMBERS PRESENT:**

Chairman, Tim Ryan  
Scott Dubbs  
Mona Bilden  
Kari Peiffer  
James Turcotte

#### **STAFF PRESENT:**

David L. Senn, Executive Director  
Tammy Rau, Deputy Executive Director  
Vivian Hammill, Legal Counsel  
Natalie Chamberlain, Executive Secretary  
Dan Gaughan, Accounting/Fiscal Manager  
Bill Hallinan, Information System Manager  
Karla Scharf/Supervisor Retired Payroll  
Janet Cooper, Benefits Officer  
Johnelle Sedlock, Benefits Officer

#### **OTHERS PRESENT:**

Charlotte Thomas, Legislative Chair, Montana Retired Educators' Association  
Jim Kembel, Montana Association of Chiefs of Police, Montana Police Protective Assoc.  
Mike O'Connor, MPERA  
Howard Lawson, Retired Teacher  
Tom Bilodeau, MEA-MFT  
Kelly Jenkins, MPERA

#### **CALL TO ORDER**

Adopt Agenda - Chairman, Tim Ryan called for additions or changes to the Agenda for May 20, 2005. Seeing none, Chairman Ryan requested a motion to adopt the Agenda. Mr. Scott Dubbs moved that the agenda be approved. Seconded by Mrs. Mona Bilden, the motion carried unanimously.

Approval of February 18, 2005 Minutes - Chairman Ryan called for a motion to approve the February 18, 2005, Board meeting minutes. Mrs. Mona Bilden moved that the February 18, 2005 minutes be adopted. Seconded by Mr. James Turcotte, the motion carried unanimously.

### **PUBLIC COMMENT**

Chairman Ryan called for public comment on Board related items. Seeing none, Mr. Ryan introduced Vivian Hammill Board Legal Counsel.

### **LEGAL COUNSEL REPORT.**

Legal Counsel, Vivian Hammill, reported on the following cases.

Merle Farrier case: The TRS opening brief before the Supreme Court was filed in early January. There was an answer brief by Mr. Farrier's attorney that was due in March. Ms. Hammill filed the final brief on April 19. The case is now fully briefed and we are waiting to hear from the Court.

Chairman Ryan asked the status of Mr. Farrier's payments.

Ms. Hammill informed the Board that we had stopped payments several years ago when we found out he was working full-time.

Suspected embezzlement case: Ms. Hammill updated the Board on the suspected embezzlement case. Ms. Hammill indicated that we suspected that the signature of a former member was forged on a change of address request subsequent to her death. One form had also been notarized. The chief investigator found out the suspect was working at a bank at that time and that he had used a co-workers notary seal to notarize the signature of the deceased retiree. Ms. Hammill's recommendation is that we hire a private investigator. He owes TRS approximately \$100,000.00.

Blain Repayment case: This is a case where a son forged his mother's signature and kept cashing her checks after she had passed away. He was prosecuted and received a suspended 5-year term, plus he was to pay restitution of \$200.00 a month. He has not made any payments since August of last year. He has paid \$8,000.00, and owes \$13,000.00 plus interest. Ms. Hammill suggested she would contact Mr. Blain and demand he either repay the amount owed immediately, or resume monthly payments.

### **Actuarial Funding:**

#### **Governor's Office - Retirement Funding Issues:**

Governor Brian Schweitzer and David Ewer, Budget Director, and Jake, his dog, stopped in at 9:15 to discuss the tabled TRS and PERS funding proposals, HB 181 and HB 148. The funding proposals were tabled to give the new Administration and legislature more time to study and understand the funding issues.

Governor Schweitzer complimented the TRS staff on their service to their members. The Governor said that he understands the market is a little tougher now than it has been in a few years and he offered to help work through these things. Governor Schweitzer expressed his concerns about the unfunded mandates that prior legislators left us. Governor Schweitzer said that he needed to be very clear with legislators that they cannot put mandates on retirement systems without the tools to deliver the money. He said that he would work with us by making sure the legislature gives us the tools to put ourselves back on track.

Chairman Ryan asked what the Board could do to assist the Governor's office with finding a solution to the TRS funding problem.

Governor Schweitzer replied, "Be transparent, just make sure you give us a heads up and let us know what's brewing. If you see some wholes or open a drawer and it's empty let us know. We don't want to read it in the newspaper. As you know, when you are managing a pension, you can head these things off at the pass. If we ignore it for a number of years there will be a day of reckoning. We need to start as early as we can."

### **EXECUTIVE DIRECTOR'S REPORT**

Contracted Services Agreements: Mr. Senn reported on the actuarial services from Milliman and their proposed fees for the next two years. Milliman proposes that the fixed fee for consulting services for the next two years increase from \$39,000 to \$43,200 or 10.77 percent for the biennium, plus travel expenses to Helena to present the actuarial valuation or other reports. In addition, he recommended the actuary complete a full valuation July 1, 2005, and a study of retired member mortality experience. Anything outside of the fixed fee, valuation and experience study would be charged on a time and material basis. To cover the Governor's and Legislative funding studies and possible legislation, Mr. Senn recommended \$16,000 for FY 2006 and \$25,000 for FY 2007. The total requested actuarial service budget for the biennium is \$135,700.

**MOTION/VOTE** Mr. Turcotte moved that the actuarial service budget be approved. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

Communication Services Agreement: In addition, staff recommends that the communication budget for FY 2005 of \$15,000 with Milliman, be adopted and approved for FY 2006.

**MOTION/VOTE** Mr. Turcotte moved that the communication budget from FY 2005 be carried forward into FY 2006. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

Ice Miller Legal Service: Ice Miller has been our legal counsel for tax and federal compliance issues since 1997. Staff recommended the legal services agreement with Ice Miller, based on time and materials, be renewed for the next biennium.

**MOTION/VOTE** Mr. Turcotte moved that the legal service agreement be renewed. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

Update Goals and Objectives – 2007 Biennium: Board members, Scott Dubbs and Jim Turcotte along with TRS staff, Dave Senn, Executive Director and Tammy Rau, Deputy Executive Director were appointed to a subcommittee to draft proposed goals and objectives for the upcoming biennium. In addition to the recommended goals and objectives, the subcommittee also recommended updating the Board's mission statement. Also, discussed were recommendations for changes to maintain an actuarially funded system, completion of an Asset Liability Model with the Board of Investments (BOI) and MPERA, possibility of an unqualified Audit opinion and increasing the level of member services and education through availability and exchange of electronic information by expanding utilization of electronic media and establishing direct communication with interested parties.

Adopt Agenda for Goals and Objectives – Chairman Ryan called for additions or changes to the Goals and Objectives Agenda for the 2007 biennium. Seeing none, Chairman Ryan requested a motion to adopt the proposed Goals and Objectives.

**MOTION/VOTE** Mr. Turcotte moved that the proposed Goals and Objectives be adopted. Seconded by Mrs. Mona Bilden, the motion carried unanimously.

2005 Legislative Session Mr. Senn gave an update on legislation for the 2005 session. HB 104, the Board's housekeeping proposal, introduced by Rep. Ralph Lenhart passed and was signed by the Governor on April 21<sup>st</sup>. The legislature also approved HJ 42 appointing an interim committee to study how the retirement funds are invested, and how investment performance, retirement plan benefits, actuarial assumptions, and legislative policy decisions affect the actuarial soundness of the public retirement systems and the employer's funding obligations.

Mr. Senn also made mention to HB 124, K-12 Health Insurance Program, HB 338, 2% Professional retirement option, HB 430, State assumption of University supplemental contribution, HB 593, prohibiting lobbying by certain public employees and HB 633, 2% GABA, these bills were all tabled in committee.

Board Policy Manual: Mr. Senn told the Board that the policy manual has not been updated since 2001 and asked if they would like to appoint a committee to read through the manual and suggest changes. Mrs. Mona Bilden and Mrs. Kari Peiffer volunteered to be on the committee and will present their findings to the Board at the September meeting.

Executive Summary: Mr. Senn talked about the overview responsibilities and regulatory framework governing the Montana Teachers' Retirement System and the Board of Investments. Mr. Senn referred to the document that NCTR puts together for every state. Mr. Senn also distributed copies of a report completed by Independent Fiduciary Services, Inc., commissioned by the Board of Investments to evaluate the Board's operational and investment program.

Mr. Senn reported that the Joint Committee on Taxation, in response to a request from Senate Finance Committee Chairman Grassley (R-IA) and Ranking Member Baucus (D-MT) to examine possible "loophole closers", has prepared a list of possible tax changes including repeal of state and local government "pick-up" rules. Mr. Senn stated that repeal of the pick-up rules would

remove the option to defer state and federal income taxes on employee contributions to purchase service and contributions deducted from termination pay.

Mr. Senn asked if the Board would like to schedule a time to get together to review current state and Board policies and regulations. The chairman suggested the Board wait until after the anticipated special session before scheduling any special meetings.

## **OTHER BUSINESS**

Interest Rate Credited to Member Accounts – Each year the Board is required to set the rate of interest that is credited to active member accounts. Since House Bill 181 was tabled, the minimum rate allowed under § 19-20-501 MCA, will remain at 4.0 percent; therefore, staff recommended that the interest rate credited to member accounts for the period July 1, 2005 – June 30, 2006, remain at 4.0 percent.

**MOTION/VOTE** Mr. Turcotte moved that the interest rate of 4.0 percent be kept. Seconded by Mr. Dubbs, the motion carried unanimously.

2005-06 Budget: A brief explanation of proposed budget items was given by TRS IT Manager, Bill Hallinan and Accounting/Fiscal Manager, Dan Gaughan. Proposed budget items included a new FTE to help support the retired payroll section.

**MOTION/VOTE** Mr. Dubbs moved that the budget requests including the additional FTE be approved. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

Out-of State Travel Requests: Mr. Senn submitted out-of-state travel justification forms for two Board members and the Executive Director to attend the NCTR Annual Conference to be held in New Orleans, Louisiana, October 6-10, 2005. Board members scheduled to attend are Mona Bilden and Tim Ryan.

**MOTION/VOTE** Mr. Turcotte moved that the travel requests be approved. Seconded by Mr. Dubbs, the motion carried unanimously.

Asset/Liability Model: As a result of the current funded status of the pension funds, a renewed interest has been shown by the Board of Investments in developing an asset/liability model jointly between the TRS and PERS Boards. Mr. Senn reported that the Board of Investments is proceeding to issue an RFP on their own for a Retainer Consultant, which they intend to have develop and complete the asset/liability study. Therefore, Mr. Senn recommended that no action be taken at this time on staff's request for additional funding. There being no objection, the chair so ordered.

Next Meeting Dates – The 2005 regular meetings of the Teachers' Retirement Board have been approved for September 8th and 9<sup>th</sup>, and November 18<sup>th</sup>.

Alternative Pay Plan: Staff members met with Kristin Jacobson from the Communication and Management Services (CMS) to discuss the proposed changes by State Personnel to the Lump

Sum Performance Reward Policy. Changes made by CMS will be circulated to staff for comment and then to the Board for approval.

Mr. Senn also mentioned that following the Board meeting that the personnel committee and any Board members who would like to participate could join Jim Kerins to discuss the draft of the appraisal for the Executive Director for the period ending November 1, 2004, together with a draft appraisal form for the current period.

Investment Report: Jim Turcotte gave an overview of recent activities of the Board of Investments. Mr. Turcotte reviewed the performance number for the last ten months; it was just under 5% which was at the end of April. Markets have continued to decline since the beginning of the year which were reflected in the performance number. Mr. Turcotte also reported on a recent conference he attended on behalf of the BOI regarding private equity manager (KKR).

Financial Statements, Delinquent Agency, Travel, and Budget Reports - Mrs. Tammy Rau, Deputy Executive Director, introduced Dan Gaughan, Accounting/Fiscal Manager to answer questions about financial statements and current budget reports for the 2005 fiscal year. Mr. Gaughan told the Board that there was only one delinquent report and that was Brorson Elementary. Mr. Gaughan had talked to the folks at Brorson School and their report was coming in next week.

## **RETIREMENT REPORT**

Regular, Survivorship, & Adjustments The Board reviewed the Regular, Survivorship, and Adjustment Report.

## **DISABILITY APPLICATIONS**

### Executive Session to Discuss Disability Applications & Annual Reviews:

The Chair directed the meeting closed at 11:00 a.m. to review disability applications since the individual's right to privacy of information pertaining to disability benefits clearly exceeds the merits of public disclosure.

Disability Retirement Applications – The meeting was reopened to the public at 11:30 a.m.

The staff recommends that the following disability retirees be “excluded” from future annual earnings and medical reporting requirements: Wilma Jean H. French, Marie L. Wagner, James E. Dow and Mary G. Wagner.

**MOTION/VOTE** Mr. Turcotte moved that all four disability retirees be “excluded” from future annual earnings and medical reporting requirements. Mrs. Bilden seconded the motion. The motion carried unanimously.

**MOTION/VOTE** Mr. Turcotte moved that the disability application of Mr. William S. Stobaugh be disapproved. Seconded by Mrs. Peiffer, the motion carried unanimously.

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Mrs. Bilden moved that the disability application of Mrs. Susan L. Capdeville be approved. Seconded by Mr. Dubbs, the motion carried unanimously.

### **ADJOURNMENT**

There being no further business, the meeting was adjourned at 12:30 pm.

Chairperson\_\_\_\_\_

Executive Director\_\_\_\_\_